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Message Text

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PAGE 01 SANTIA 08470 171529Z

44
ACTION ARA-10

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 (ISO) W
---------- 073286
R 171322Z DEC 75
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 6196

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E.O. 11652: N/A
TAGS: EFIN, CI
SUBJECT: BALANCE OF PAYMENTS REVIEW - CHILE

REF: A) STATE 275435; B) STATE 199613; C) SANTIAGO 6361

1. SUMMARY. CHILE MANAGED TO BRIDGE 1975 PAYMENTS DEFICIT THROUGH AUSTERE FISCAL AND MONETARY POLICIES COUPLED WITH RENEGOTIATION OF FOREIGN DEBT PAYMENTS, PL-480 ASSISTANCE AND SIZABLE IMF DRAWINGS. GOC FORESEES SUBSTANTIALLY SMALLER DEFICIT FOR 1976 BUT ONLY BECAUSE "YEAR OF SACRIFICE," ONCE THOUGHT TO END IN DECEMBER 1975, HAS BEEN EXTENDED BY TWELVE MONTHS. END SUMMARY.

2. SOURCE OF BOP DATA IS CENTRAL BANK EXCEPT AS OTHERWISE INDICATED:

(MILLIONS OF US DOLLARS)

1974 1975 1976

A. EXPORTS FOB 2,045 1,505 1,885

COPPER 1,557 836 1,149
PAPER, CELLULOSE, & CARDBOARD 115 103 175 (E)
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PAGE 02 SANTIA 08470 171529Z

B. IMPORTS CIF 2,239 1,752 1,809

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

PETROLEUM	318	282	343
FOODSTUFFS	472	345	262
CAPITAL GOODS	300	295	340
C. NET SERVICES	-194	-338	-326
D. TRANSFERS	5	5	5
E. PUBLIC OFFICIAL CAPITAL			
FLOWS (NET)	153	-61	
FROM ABROAD:			
CAPITAL GOODS	262	220	289
FOREIGN EXCHANGE CREDITS	64	30	20
PL-480	55	83	58
AID (HOUSING GUARANTEE)	--	11	32
DEBT RENOGOTIATION (BRAZIL,			
FRANCE, SWITZERLAND)	--	18	41
OTHER DEBT RENEGOTIATION	424	198	--
CODELCO LOANS	--	90	--
TO ABROAD:			
AMORTIZATION LONG-TERM DEBT	696	497	501
F. REPATRIATED CAPITAL (NET)	134	60	60
OTHER PRIVATE CAPITAL INFLOWS	--	133	71
G. ADJUSTMENT IN SDR			
ACCOUNT WITH IMF	--	20	--
H. CHANGE IN NET RESERVES	-140	-213	-175

(E) EMBASSY ESTIMATE

NOTE: ESTIMATES IN CAPITAL ACCOUNT FOR 1976 SHOULD BE USED DISCREETLY. CAPITAL GOODS ITEM INCLUDES FOREIGN INVESTOR AND PRIVATE SUPPLIER CREDITS AS WELL AS PUBLIC AND PUBLICLY GUARANTEED CREDITS. RATIONALE FOR LUMPING ALL TOGETHER IS DIFFICULTY IN SEGREGATING THEM STATISTICALLY. SEE REF C FOR EMBASSY ESTIMATE OF FOREIGN INVESTMENT FLOW IN 1976. CENTRAL BANK LUMPS IBRD, IDB, AND OTHER AID AGENCY SPENDING UNDER ITEM "FOREIGN EXCHANGE CREDITS." SEPARATE ITEM FOR RENEGOTIATION OF DEBTS WITH BRAZIL, FRANCE, SWITZERLAND MADE NECESSARY BY PROCEDURE WHEREBY GOC REPAYS DEBTS AND THEN RECEIVES NEW CREDITS IN SAME AMOUNT; BOTH 1975 AND 1976 ENTRIES INCORPORATE DEBT RESCHEDULINGS ON PAYMENTS FALLING DUE IN 1975. PRIVATE CAPITAL FLOWS ITEM COMPRISES LONG-TERM CAPITAL REPATRIATED BY CHILEAN RESIDENTS AND SHORT-TERM INFLOWS.

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3. EXCEPT FOR VERY SMALL TECHNICAL ASSISTANCE PROGRAMS, OTHER OECD COUNTRY SPENDING IN CHILE WAS INSIGNIFICANT IN 1974 AND 1975 AND IS EXPECTED TO REMAIN THE SAME IN 1976. IBRD, IDB, US AID, UNDP, AND OAS WOULD ACCOUNT FOR VIRTUALLY ALL FLOWS IN FOREIGN CREDITS ITEM. WE UNDERSTAND OAS HAS BEEN SPENDING ABOUT $1 MILLION A YEAR IN CHILE AND UNDP FROM $3 - 4 MILLION PER YEAR. WE ESTIMATE US AID SPENDING AT $0.4 MILLION IN 1974, $0.9 MILLION IN 1975, AND $0.5 MILLION IN 1976. CHILE HAS RECEIVED

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

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NO EURO-CURRENCY AND NO OPEC LOANS.

4. 1976 ESTIMATE ASSUMES LME COPPER PRICE OF 65 CENTS A POUND; PETROLEUM IMPORT PRICE (CIF) OF $13.00 A BARREL; AND WHEAT IMPORT PRICE (CIF) OF $160 A TON, CHILE IMPORTED ABOUT 799.9 TONS OF WHEAT, CORN AND RICE IN CY 75 AND IS EXPECTED TO IMPORT ABOUT 610,000 TONS IN CY 76, CENTRAL BANK ESTIMATE OF 65 CENTS A POUND FOR COPPER INCREASINGLY SEEMS TO BE OVER-OPTIMISTIC.

5. CENTRAL BANK PROJECTIONS DO NOT INCORPORATE EXPLICIT ASSUMPTIONS ABOUT 1976 GNP GROWTH RATE. WE HAVE BEEN ADVISED, HOWEVER, THAT PROJECTIONS ALLOW FOR VERY MODEST RATE OF ECONOMIC RECOVERY IN THE YEAR AHEAD. GOC ECONOMIC AUTHORITIES ARE PRIVATELY ESTIMATING GDP DECLINE OF 12 PERCENT IN 1975. GDP ROSE BY 4.3 PERCENT IN 1974. BASED ON UNOFFICIAL ESTIMATES OF THE GOC OFFICE OF DEVELOPMENT PLANNING, EMBASSY ESTIMATES GDP IN CURRENT DOLLARS AS FOLLOWS:

	1974	1975
GDP (MILLIONS)	11,457	10.915

NO ESTIMATES AVAILABLE FOR CY 1976. GOVERNMENT ECONOMISTS ASSUME 1976 WILL BE YEAR OF MODEST GNP GROWTH. INFLATION WILL BE HIGH THOUGH AT MUCH REDUCED RATE IN 1976. CENTRAL BANK NOW ASSUMES 8 - 9 PERCENT MONTHLY RATE, EQUIVALENT TO AN ANNUAL RATE OF 150 - 180 PERCENT.

6. PUBLICLY AND PUBLICLY-GUARANTEED EXTERNAL DEBT (EXCLUDING) UNDISBURSED PORTION) ESTIMATED AT $3,577 MILLION AT END OF 1974 AND $4,000 MILLION AT END OF 1975. EMBASSY HAS NO INFORMATION ON LEVEL OF PRIVATE EXTERNAL OBLIGATIONS WHICH ARE PRESUMED TO BE RELATIVELY SMALL.
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7. ADJUSTMENT POLICIES. OVER PAST TWO YEARS BASIC POLICY HAS BEEN TO ADJUST EXCHANGE RATE IN LINE WITH DOMESTIC PRICE INFLATION. SHARPLY LOWER COPPER PRICES AND HIGHER IMPORT PRICES, HOWEVER, CAUSED GOC TO VARY BASIC POLICY OVER FIRST TEN MONTHS OF 1975 AS WEIGHTED AVERAGE EXCHANGE RATE INCREASED 10 PERCENT AGAINST CPI. FASTER DEPRECIATING PESO HAS ENABLED GOC TO CONSERVE ON FOREIGN EXCHANGE RESERVES AS WELL AS TO ENCOURAGE EXPORTS. GOC HAS ALSO ATTEMPTED, WITH SOME SUCCESS, TO FOSTER EXPORT GROWTH THROUGH MORE FAVORABLE TAX TREATMENT OF EXPORT INCOME AND THROUGH EXPORT PROMOTION CAMPAIGNS.

8. IN MID-1975 GOC INTRODUCED AUSTERITY PROGRAM TO REDUCE FISCAL EXPENDITURES, ENFORCE GREATER EFFICIENCY IN MANAGEMENT OF STATE ENTERPRISES, AND TIGHTEN CRIDIT, ESPECIALLY TO PUBLIC

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SECTOR FIRMS AND AGENCIES. DEFICIT IN PESO BUDGET WAS CUT FROM 29 PERCENT OF EXPENDITURES IN 1974 TO ABOUT NINE PERCENT. SMALLER PUBLIC SECTOR DEFICIT TOGETHER WITH MORE RESTRICTIVE CREDIT POLICIES ENABLED GOC TO REDUCE 1975 EX ANTE CURRENT ACCOUNT BOP DEFICIT FROM $900 MILLION TO REALIZED DEFICIT OF APPROXIMATELY $580 MILLION. GOC BUDGET FOR 1976 WOULD MAINTAIN REAL SPENDING APPROXIMATELY AT 1975 LEVELS AND CALLS FOR SMALL SURPLUS IN PESO PORTION OF BUDGET. GOC ECONOMIC AUTHORITIES EXPECT AUSTERE FINANCIAL POLICY COUPLED WITH EXPORT PROMOTION AND EXCHANGE RATE POLICIES TO RESULT IN MUCH SMALLER TRADE ACCOUNT DEFICIT FOR 1976.

9. COMMENT: WE REITERATE THAT BOP PROJECTIONS FOR 1976 WERE MADE BY CENTRAL BANK. EMBASSY JUDGMENT IS THAT CENTRAL BANK IS VERY OPTIMISTIC GIVEN UNDERLYING ASSUMPTIONS ABOUT IMPORT AND EXPORT PRICES AND LEVEL OF ECONOMIC ACTIVITY. WE ARE ESPECIALLY SKEPTICAL THAT GOC CAN FOREGO PARIS CLUB DEBT RESCHEDULING IN 1976 OR THAT FOOD GRAIN IMPORTS 1976 CAN BE HELD TO GOC'S PROJECTED LEVEL.
POPPER

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